



Fact Sheet: REAL ESTATE INVESTMENT TRUST

WHAT IS A REAL ESTATE INVESTMENT TRUST ("REIT")?

A REIT is a company that owns, and in most cases, operates income-producing real estate such as apartments, shopping centers, offices, hotels and warehouses. Some REITs also engage in financing real estate. The shares of many REITs are freely traded, usually on a major stock exchange.

To qualify as a REIT, a company must distribute at least ninety (90) percent of its taxable income to its shareholders annually. A company that qualifies as a REIT is permitted to deduct dividends paid to its shareholders from its corporate taxable income. As a result, most REITs release at least one-hundred (100) percent of their taxable income to their shareholders and therefore owe no corporate tax. Taxes are paid by shareholders on the dividends received and any capital gains. Most states honor this federal treatment and also do not require REITs to pay state income tax. Like other businesses, but unlike partnerships, a REIT cannot pass any tax losses through to its investors.

WHY WERE REITs CREATED?

Congress created REITs in 1960 to make investments in large-scale, income-producing real estate available to smaller investors. It decided that a way for average investors to invest in large-scale commercial properties was the same way they invest in other industries, through the purchase of equity. In the same way as shareholders benefit by owning stocks of other corporations, the stockholders of a REIT earn a pro-rata share of the economic benefits that are derived from the production of income through commercial real estate ownership. REITs offer distinct advantages for investors: greater diversification through investing in a portfolio of properties rather than a single building and management by experienced real estate professionals.

WHAT TYPES OF PROPERTIES DO REITs INVEST IN?

REITs invest in a variety of property types: shopping centers, apartments, warehouses, office buildings, hotels, and others. Most REITs specialize in one property type only, such as shopping malls, self-storage facilities or factory outlet stores. Health care REITs specialize in health care facilities, including acute care, rehabilitation and psychiatric hospitals, medical office buildings, nursing homes and assisted living centers.

Some REITs invest throughout the country or in certain other countries. Others specialize in one region only, or even a single metropolitan area.